FEZILE DABI DISTRICT MUNICIPALITY

Consolidated Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	An organ of state exercising legislative and executive authority.
Nature of business and principal activities	District Municipality
Mayoral committee	
Executive Mayor	Cllr MP Moshodi
Councillors	Cllr SI Mbalo (Speaker)
	Cllr ME Notsi
	Cllr AM Oliphant
	Cllr K Khumalo
	Cllr ME Magashule
	Cllr GN Guza
Grading of local authority	Low Capacity
Accounting Officer	Dr. MMV Mongake (From 01/07/2011 to 30/09/2012)
	ML Molibeli (From 01/10/2012 to date)
Chief Finance Officer (CFO)	Mr J Reyneke (Acting)
Registered office	John Vorster Road Sasolburg 1947
Postal address	P.O Box 10 Sasolburg 1947
Bankers	ABSA BANK
Auditors	The Auditor - General: Free State

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
EPWP	Expanded Public Works Programme
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IDP	Intergrated Development Plan
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FDDM	Fezile Dabi District Municipality
DWA	Department of Water Affairs
COGTA	Cooperative Governance and Traditional Affairs

Accounting Officer's Responsibilities and Approval

I am responsible for the presentation of these financial statements which are set out on page 5 to 56 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), and which I have signed on behalf of the Municipality.

The consolidated annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 14 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The consolidated annual financial statements set out on page 5 to 57, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2012 and were signed on its behalf by:

Municipal Manager
ML Molibeli
Hons & Masters: Public Governance and Management

STATEMENT OF FINANCIAL POSITION

	Note(s)	2012 R	Restated 2011 R
Assets			
Current Assets			
Trade and other receivables	2	293,584	1,090,854
VAT receivable	3	4,224,101	3,202,333
Cash and cash equivalents	4	190,824,792	206,198,370
		195,342,477	**210,491,557**
Non-Current Assets			
Property, plant and equipment	5	22,938,624	24,406,832
Intangible assets	40	137,057	214,725
		23,075,681	**24,621,557**
Total Assets		**218,418,158**	**235,113,114**
Liabilities			
Current Liabilities			
Trade and other payables	8	19,938,513	20,189,602
Unspent conditional grants and receipts	42	35,507,082	56,661,118
Current portion of long term loans	7	5,287,916	4,729,858
		60,733,511	**81,580,578**
Non-Current Liabilities			
Retirement benefit obligation	41	6,440,000	5,643,000
Provisions	9	5,677,000	4,707,000
Long term loans	7	20,432,122	25,717,818
Operating lease liability		209,355	768,338
		32,758,477	**36,836,156**
Total Liabilities		**93,491,988**	**118,416,734**
Net Assets		**124,926,170**	**116,696,380**
Net Assets			
Reserves			
Revaluation reserve	6	7,835,140	8,181,602
Capital replacement reserve		-	4,019,492
Accumulated surplus		117,091,030	104,495,286
Total Net Assets		**124,926,170**	**116,696,380**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2012 R	Restated 2011 R
Revenue			
Government grants & subsidies	10	129,393,000	126,738,417
Administration and management fees received		46,450	66,998
Fees earned		272,233	117,894
Recoveries		13,381	36,391
Other income		2,212,514	1,795,040
Interest received - Investment	12	10,466,965	9,319,046
Total Revenue		**142,404,543**	**138,073,786**
Expenditure			
Employee related costs	13	(56,907,301)	(47,431,798)
Remuneration of councillors	14	(5,414,800)	(4,984,859)
Administration	15	(691,835)	(1,158,012)
Depreciation and amortisation	16	(3,634,351)	(3,526,757)
Bad debts written off	17	(724,431)	-
Finance charges	18	(3,488,495)	(3,972,338)
Repairs and maintenance		(641,844)	(605,265)
Contracted services	19	(15,043,831)	(13,027,768)
Grants and subsidies paid	20	(8,472,580)	(9,043,571)
Loss on disposal of assets		(579,097)	(348,351)
General Expenses	21	(39,437,553)	(43,230,664)
Total Expenditure		**(135,036,118)**	**(127,329,383)**
Surplus for the year		**7,368,425**	**10,744,403**

STATEMENT OF CHANGES IN NET ASSETS

	Revaluation reserve	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R
Balance at 01 July 2010	**8,364,448**	**4,019,492**	**12,383,940**	**92,980,947**	**105,364,887**
Changes in net assets					
Recognition of Revaluation Surplus Over-realised	163,615	-	163,615	-	163,615
Bursary Debtors recognised	-	-	-	114,310	114,310
Auditors Corrections	-	-	-	(8,545)	(8,545)
Revaluation reserve realised	(346,461)	-	(346,461)	346,461	-
Prior year corrections	-	-	-	(15,000)	(15,000)
Other corrections	-	-	-	332,710	332,710
Net income (losses) recognised directly in net assets	(182,846)	-	(182,846)	769,936	587,090
Surplus for the year	-	-	-	10,744,403	10,744,403
Total recognised income and expenses for the year	(182,846)	-	(182,846)	11,514,339	11,331,493
Total changes	(182,846)	-	(182,846)	11,514,339	11,331,493
Opening balance as previously reported	8,181,602	4,019,492	12,201,094	102,580,879	114,781,973
Adjustments					
Prior year error	-	-	-	1,914,402	1,914,402
Balance at 01 July 2011 as restated	**8,181,602**	**4,019,492**	**12,201,094**	**104,495,281**	**116,696,375**
Changes in net assets					
Revaluation reserve realised	(346,462)	-	(346,462)	346,462	-
Adjustments against accumulated surplus	-	-	-	861,370	861,370
Disestablishment of the Capital Replacement Reserve (CRR)	-	(4,019,492)	(4,019,492)	4,019,492	-
Net income (losses) recognised directly in net assets	(346,462)	(4,019,492)	(4,365,954)	5,227,324	861,370
Surplus for the year	-	-	-	7,368,425	7,368,425
Total recognised income and expenses for the year	(346,462)	(4,019,492)	(4,365,954)	12,595,749	8,229,795
Total changes	(346,462)	(4,019,492)	(4,365,954)	12,595,749	8,229,795
Balance at 30 June 2012	**7,835,140**	**-**	**7,835,140**	**117,091,030**	**124,926,170**
Note(s)	6				

CASH FLOW STATEMENT

	Note(s)	2012 R	Restated 2011 R
Cash flows from operating activities			
Receipts			
Grants		129,393,000	126,738,417
Interest income		10,466,965	9,319,046
Other receipts		2,544,578	2,016,323
		142,404,543	138,073,786
Payments			
Employee costs		(62,322,101)	(52,416,657)
Suppliers		(84,013,330)	(16,538,607)
Finance costs		(3,488,495)	(3,972,338)
		(149,823,926)	(72,927,602)
Net cash flows from operating activities	22	**(7,419,383)**	**65,146,184**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(2,610,726)	(5,443,349)
Proceeds from sale of property, plant and equipment	5	579,097	702,593
Purchase of intangible assets	40	(56,848)	-
Loss from sale of property, plant and equipment		(579,097)	(348,351)
Net cash flows from investing activities		**(2,667,574)**	**(5,089,107)**
Cash flows from financing activities			
Movement in long term loans		(4,727,638)	(4,243,459)
Movement in operating lease liability		(558,983)	(206,394)
Net cash flows from financing activities		**(5,286,621)**	**(4,449,853)**
Net increase/(decrease) in cash and cash equivalents		**(15,373,578)**	**55,607,224**
Cash and cash equivalents at the beginning of the year		206,198,370	150,591,146
Cash and cash equivalents at the end of the year	4	**190,824,792**	**206,198,370**

ACCOUNTING POLICIES

1. Basis of Presentation

The consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Presentation of currency

These consolidated annual financial statements are presented in South African Rand.

1.2 Reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The CRR reserve was disestablished by council on the 16 August 2012, as it was deemed to be no longer applicable.

1.3 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

ACCOUNTING POLICIES

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses except land and buildings which are revalued at least every five years. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

Land and buildings are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses in respect of buildings.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The annual depreciation rates are based on the following estimated asset useful lives:

Item	**Average useful life**
Land	Indefinite
Buildings	30 years
Furniture and Fittings	3 - 10 years
Motor Vehicles	
• Ambulances	5 - 10 years
• Fire engines	20 years
• Buses	15 years
• Trucks and light delivery vehicles	5 - 7 years
• Ordinary motor vehicles	5 - 7 years
• Motor cycles	3 years

ACCOUNTING POLICIES

1.4 Property, plant and equipment (continued)

Office Equipment

• Computer hardware	5 years
• Computer software	3 - 5 years
• Office machines	3 - 5 years
• Air conditioners	5 - 7 years

Emergency Equipment

• Fire hoses	5 years
• Other fire-fighting equipment	15 years
• Emergency lights	5 years

Other property, plant and equipment

• Lawn mowers	2 years
• Compressors	5 years
• Laboratory equipment	5 years
• Radio equipment	5 years
• Firearms	5 years
• Telecommunication equipment	5 years

ACCOUNTING POLICIES

1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Impairment

The entity assess at each report date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

If, and only if the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in the standard of GRAP on Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph. 65 of GRAP 21, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods.

A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount in accordance with another Standard of GRAP (for example, in accordance with the revaluation model in the standard of GRAP on Property, Plant and Equipment). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that Standard of GRAP.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future period to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in surplus or deficit when the item is derecognised. (unless the Standard of GRAP on Leases requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.

ACCOUNTING POLICIES

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. They are included in current assets/liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets/liabilities. The municipality's loans and receivables/payables comprise 'trade and other receivables/payables' and cash and cash equivalents in the balance sheet.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in other comprehensive income and accumulated equity.

Receivables from exchange transactions

Trade and other receivables are classified as loans and receivables

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

Payables from exchange transactions

Trade payables are stated at their nominal value.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and short term deposits in financial instruments, net of bank overdrafts.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment’s recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality’s continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Revenue Recognition

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Interest revenue is recognised using the effective interest rate method.

Government grants are recognised as revenue when all conditions associated with the grant have been met. Where grants have been received but the municipality has not met the condition, a liability is raised.

Amounts received from government and donors for the purpose of acquiring item of property, plant and equipment are also recognised as revenue.

ACCOUNTING POLICIES

1.6 Revenue Recognition (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.7 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

This liability always has to be cash-backed. The following provision are set for the creation and utilisation of this creditor:

Unspent conditional grants are recognised as a liability when the grant is received.
When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
The cash which backs up the creditor is invested until it is utilised.
Interest earned on the investment is treated in accordance with the grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's income it is recognised as interest earned in the Statement of Financial Performance.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

ACCOUNTING POLICIES

1.8 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed. 45

1.9 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.10 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the municipal system Act (Act No.32 of 2000), the Public Office Bearer Act (Act No.20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

ACCOUNTING POLICIES

1.11 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.12 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

ACCOUNTING POLICIES

1.12 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability

1.13 Borrowing costs

Borrowing costs are recognised as an expense in the Statement of Financial Performance in the period in which they are incurred

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

ACCOUNTING POLICIES

1.14 Employee benefits (continued)

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.15 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed.

Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparative are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Prior year comparatives:
When the presentation or classification of items in the annual financial statements is amended, prior year comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.16 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

ACCOUNTING POLICIES

1.16 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in a note.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 41.

1.17 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

The cost of a separately acquired intangible asset comprises:
(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
(b) any directly attributable costs of preparing the asset for its intended use.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

ACCOUNTING POLICIES

1.17 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 - 5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.18 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.20 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

ACCOUNTING POLICIES

1.21 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The consolidated annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the consolidated annual financial statements.

1.23 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Notes to the Consolidated Annual Financial Statements

2. Trade and other receivables

	2012 R	Restated 2011 R
Suspense	33,282	37,136
Fuel deposit	1,000	1,000
Pick n Pay Card	2,251	2,251
Other debtors	198,462	922,893
Bursary recoupments	56,089	114,308
N Xaba - Vehicle	2,500	9,780
T Sefako - Vehicle	-	3,486
	293,584	**1,090,854**

3. VAT receivable

	2012 R	Restated 2011 R
VAT	4,224,101	3,202,333

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

4. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012 R	Restated 2011 R
Bank balances	68,305,534	90,236,741
Short-term deposits	122,519,258	115,961,629
	190,824,792	**206,198,370**

Short term deposits are for periods which are less than 3 months.

Short-term deposits consist of the following balances at various institutions		
ABSA BANK	38,524,139	36,726,445
NEDBANK	29,608,219	27,959,580
RAND MERCHANT	10,941,142	10,324,315
STANDARD BANK	43,445,758	40,951,289
	122,519,258	**115,961,629**

The municipality had the following bank accounts

Cheque Account **ABSA BANK - Sasolburg** **Account number: 520000100**		
Cash book balance at the beginning of the year	21,674,920	718,441
Cash book balance at the end of the year	3,667,675	21,674,920
Bank statement balance at the beginning of the year	24,718,509	961,942
Bank statement balance at the end of the year	3,838,931	24,718,509

Savings Account **ABSA Bank - Sasolburg** **Account Number: 9070399717**		
Cash book balance at the beginning of the year	67,484,814	40,203,780
Cash book balance at the end of the year	63,210,824	67,484,814
Bank statement balance at the beginning of the year	67,484,814	40,203,780
Bank statement balance at the end of the year	63,210,824	67,484,814

HIV/Aids Project Bank Account **ABSA Bank - Sasolburg** **Account number: 9209269956**		
Cash book balance at the beginning of the year	1,189,219	381,020
Cash book balance at the end of the year	1,427,035	1,189,219
Bank statement balance at the beginning of the year	1,189,219	381,020
Bank statement balance at the end of the year	1,427,035	1,189,219

Notes to the Consolidated Annual Financial Statements

4. Cash and cash equivalents (continued)

Fezile Dabi District Trust Account
Standard Bank - Parys
Account number: 246525703

	2012 R	Restated 2011 R
Cash book balance at the beginning of the year	-	70,050
Cash book balance at the end of the year	-	-
Bank statement balance at the beginning of the year	-	70,050
Bank statement balance at the end of the year	-	-

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

5. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,025,000	-	2,025,000	2,025,000	-	2,025,000
Buildings	14,718,126	(3,335,095)	11,383,031	14,377,582	(2,564,724)	11,812,858
Plant and machinery	204,945	(36,295)	168,650	204,945	(25,535)	179,410
Furniture and fixtures	4,006,006	(3,093,829)	912,177	3,793,621	(2,829,956)	963,665
Motor vehicles	8,760,272	(3,109,079)	5,651,193	7,939,097	(1,760,843)	6,178,254
Office equipment	1,689,566	(1,326,786)	362,780	1,532,289	(1,161,599)	370,690
Computer equipment	5,321,858	(4,639,398)	682,460	5,051,492	(4,178,568)	872,924
Other Assets	2,778,213	(1,024,880)	1,753,333	2,677,122	(673,091)	2,004,031
Total	**39,503,986**	**(16,565,362)**	**22,938,624**	**37,601,148**	**(13,194,316)**	**24,406,832**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Carrying Value
Land	2,025,000	-	-	-	2,025,000
Buildings	11,812,858	340,544	-	(770,371)	11,383,031
Plant and machinery	179,410	-	-	(10,760)	168,650
Furniture and fixtures	963,665	217,786	(5,400)	(263,874)	912,177
Motor vehicles	6,178,254	1,523,661	(573,697)	(1,477,025)	5,651,193
Office equipment	370,690	157,277	-	(165,187)	362,780
Computer Equipment	872,924	270,367	-	(460,831)	682,460
Other Assets	2,004,031	101,091	-	(351,789)	1,753,333
	24,406,832	**2,610,726**	**(579,097)**	**(3,499,837)**	**22,938,624**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Revaluation Surplus over-realised	Depreciation	Carrying Value
Land	2,025,000	-	-	-	-	2,025,000
Buildings	12,303,960	103,246	-	163,616	(757,964)	11,812,858
Plant and machinery	190,171	-	-	-	(10,761)	179,410
Furniture and fixtures	1,198,235	162,947	(7,496)	-	(390,021)	963,665
Motor vehicles	3,153,696	4,109,851	-	-	(1,085,293)	6,178,254
Office equipment	372,744	155,429	(117)	-	(157,366)	370,690
Computer Equipment	1,034,620	463,487	(8,113)	-	(617,070)	872,924
Other Assets	2,539,799	448,389	(686,867)	-	(297,290)	2,004,031
	22,818,225	**5,443,349**	**(702,593)**	**163,616**	**(3,315,765)**	**24,406,832**

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

5. Property, plant and equipment (continued)

Revaluations

The effective date of the revaluations was 26 June 2008. Revaluations were performed by independent valuer.Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus was credited to revaluation reserve.

Land and buildings are re-valued independently every 5 years.

The carrying value of the revalued assets under the cost model would have been:

	2012	2011
Land	178,810	178,810
Buildings	4,865,717	4,984,097

Other information

	2012	2011
Property, plant and equipment fully depreciated and still in use (Gross carrying amount)		
Computer Equipment	4,156,241	3,013,801
Furniture and Fittings	2,296,970	2,001,014
Buildings	750,425	-
Motor Vehicles	45,000	4,500
Office Equipment	1,194,777	684,338
Other Assets	321,234	189,186
	8,764,647	**5,892,839**

As at year-end, Work-in-progress (WIP) contained the following amounts for assets as at year-end not yet delivered/received by the Municipality.

	2012	2011
The following are the assets that makes up the WIP;		
- Computer Equipment	-	13 514
- Furniture and Fittings	-	90 708
TOTAL	-	**104 222**

Key Assumptions used to determine the recoverable service amount of assets during the period:

The municipality conducted a stock-take/asset count, and in this process the assets' conditions were assessed, and it was determined that no assets were identified to be impaired.

No further information is therefore disclosed, as there were no assets impaired during the period under review.

6. Revaluation reserve

	2012	2011
Opening balance	8,181,602	8,364,448
Reserve realised	(346,462)	(346,461)
Reversal of Revaluation surplus over-realised	-	163,615
	7,835,140	**8,181,602**

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

6. Revaluation reserve (continued)

Revaluation surplus relating to property, plant and equipment

	2012 R	Restated 2011 R
Revaluation surplus beginning of period	8,181,602	8,364,448
Movements in the reserve for the year	(346,462)	(346,461)
Reversal of Revaluation surplus over-realised	-	163,615
	7,835,140	**8,181,602**

7. Long term loans

	2012 R	Restated 2011 R
Loans from DBSA		
External loans	25,720,038	30,447,653
Less: Current portion transferred to current liabilities	(5,287,916)	(4,729,858)
	20,432,122	**25,717,795**

8. Trade and other payables

	2012 R	Restated 2011 R
Trade payables	6,269,987	6,813,834
Retention Creditors	8,879,287	9,680,215
Other creditors	-	21,961
Staff Leave Accrual	3,467,588	2,664,214
Service Bonus Accrual	1,321,651	1,009,378
	19,938,513	**20,189,602**

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

9. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Long Service Awards	4,707,000	970,000	5,677,000

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Long Service Awards	3,597,000	1,110,000	4,707,000

The provision relates to the Long Service Award obligation for the municipal employees. The actuarial valuation was performed in line with the requirements of IAS 19.

Amounts recognised in the statement of Financial Performance are as follows:

	2012	2011
Service cost	(849 000)	(647,000)
Interest cost	(401 000)	(337,000)
Expected benefits paid	696 000	667,000
Actuarial gains/(losses)	(416 000)	(793,000)
Net Expenditure recognised	**970 000**	**(1,110,000)**

Amounts recognised in the statement of Financial Position are as follows:

	2012	2011
Defined benefit obligation	(5 677 000)	(4,707,000)
Plan Assets	-	-
Funded status	(5 677 000)	(4,707,000)
Unrecognised actuarial (gains) / losses	-	-
Net obligation recognised in the Statement of Financial Position	**(5 677 000)**	**(4,707,000)**

Key assumptions used:

Assumptions used at the reporting date:

	2012	2011
Discount rates used	8.00%	8.40 %
Salary inflation	7.50%	7.70 %
Net discount rate	0.47%	0.65 %

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index-linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best estimate assumption for a salary inflation.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

10. Government grants and subsidies

Equitable share	127,132,000	122,988,417
Financial management grant	1,250,000	1,000,000
MSIG	790,000	750,000
Extended Public Works Program Incentive (EPWP)	221,000	-
Provincial Department of Transport - Fire Truck	-	2,000,000
	129,393,000	**126,738,417**

Equitable Share

Balance unspent at beginning of year	-	-
Current-year receipts	127,132,000	122,988,417
Conditions met - transferred to revenue	(127,132,000)	(122,988,417)
	-	**-**

The Equitable Share is an unconditional grant and is utilised to assist the municipalities to undertake service delivery.

Financial Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,250,000)	(1,000,000)
	-	**-**

The purpose of the financial management grant is to assist municipalities to implement financial reforms required by MFMA

MSIG

Balance unspent at beginning of year	-	-
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	**-**

The fund is used to assist the district in building capacity to perform its functions and stabilise institutional and governance systems as required by the Municipal Systems Act of 2000.

Extended Public Works Program Incentive (EPWP)

Balance unspent at beginning of year	-	-
Current-year receipts	221,000	-
Conditions met - transferred to revenue	(221,000)	-
	-	**-**

The extended Public Works Program Incentive grant was received by the municipality based on its ability to meet the performance requirements as set by the Department of Extended Public Works Programme.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

10. Government grants and subsidies (continued)

Provincial Department of Transport - Fire Truck

Balance unspent at beginning of year	-	2,000,000
Current-year receipts	-	-
Conditions met - transferred to revenue	-	(2,000,000)
	-	**-**

The municipality received the grant from the provincial department of Transport to assist the municipality to procure a fire truck.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No.5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 2 financial years.

11. Other Income

Telephone deductions - Officials and Councillors	279,081	239,143
Jazz festival income	1,646,186	1,187,109
Other	287,247	368,788
	2,212,514	**1,795,040**

12. Interest received

Interest revenue		
Unlisted financial assets	6,557,630	6,673,723
Bank	3,904,526	2,645,323
Interest charged on trade and other receivables	4,809	-
	10,466,965	**9,319,046**

Notes to the Consolidated Annual Financial Statements

13. Employee related costs

	2012 R	Restated 2011 R
Employee related costs - Salaries and Wages	32,254,799	26,422,444
Performance Bonus	837,522	515,223
Employee related cost - Contributions of UIF, pension and medical aids	7,959,368	6,429,013
Leave pay provision charge	2,122,744	970,200
Overtime payments	1,247,457	536,908
Long-service awards	970,000	1,110,000
Annual Bonus	2,666,700	2,294,200
Travel, motor car and allowances	7,219,256	6,066,401
Housing benefits and allowances	832,455	927,409
Termination benefits	797,000	2,160,000
	56,907,301	**47,431,798**

Remuneration of Municipal Manager

	2012 R	Restated 2011 R
Annual Remuneration	751,224	649,297
Car Allowance	220,000	201,667
Performance Bonuses	164,220	-
Housing	108,000	99,000
Contributions to UIF, Medical and Pension Funds	149,114	128,470
	1,392,558	**1,078,434**

Remuneration of Chief Finance Officer

	2012 R	Restated 2011 R
Annual Remuneration	271,694	755,779
Car Allowance	90,565	251,926
Performance Bonuses	147,798	136,279
Acting Allowance: Municipal Manager	-	8,637
Contributions to UIF, Medical and Pension Funds	6,363	12,395
	516,420	**1,165,016**

The municipality's CFO Mr E Mohlahlo, only served the municipality up to 30 October 2011.

Allowances paid to the Acting Chief Financial Officer

	2012 R	Restated 2011 R
Car Allowance	41,057	-
Acting Allowance	150,366	-
	191,423	**-**

Mr J Reyneke was appointed as the Acting Chief Financial Officer effectively from 01 November 2011 till the end of the 2011/12 financial year.

Remuneration of Director: LED

	2012 R	Restated 2011 R
Annual Remuneration	692,674	554,389
Car Allowance	120,000	204,110
Performance Bonuses	131,376	103,399
Contributions to UIF, Medical and Pension Funds	172,226	146,278
	1,116,276	**1,008,176**

Notes to the Consolidated Annual Financial Statements

13. Employee related costs (continued)

Remuneration of Director: PMU

	2012 R	Restated 2011 R
Annual Remuneration	770,716	657,932
Car Allowance	201,322	201,322
Performance Bonuses	131,376	112,740
Contributions to UIF, Medical and Pension Funds	12,372	10,922
	1,115,786	**982,916**

Remuneration of Director: Corporate Services

	2012 R	Restated 2011 R
Annual Remuneration	595,394	521,108
Car Allowance	243,041	220,467
Performance Bonuses	131,376	81,141
Contributions to UIF, Medical and Pension Funds	144,738	132,546
	1,114,549	**955,262**

Remuneration of Director: Health and Safety

	2012 R	Restated 2011 R
Annual Remuneration	600,073	550,953
Car Allowance	243,041	223,574
Performance Bonuses	131,376	81,665
Contributions to UIF, Medical and Pension Funds	140,501	127,989
	1,114,991	**984,181**

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R
14. Remuneration of councillors		
Executive Mayor	677,569	609,560
Mayoral Committee Members	1,985,438	2,367,132
Speaker	527,987	449,903
Councillors	2,223,806	1,558,264
	5,414,800	**4,984,859**
Executive Mayor - Cllr MP Moshodi		
Basic Salary	402,459	-
Car Allowances	158,836	-
Cellphone Allowance	37,752	-
Social Contributions	78,522	-
	677,569	**-**
Speaker - Cllr SI Mbalo		
Basic Salary	316,457	-
Car Allowances	127,068	-
Cellphone Allowance	18,840	-
Social Contributions	65,622	-
	527,987	**-**
MMC - FINANCE: Cllr ME Notsi (01/07/2011 - 30/06/2012)		
Basic Salary	186,459	-
Car Allowances	71,476	-
Cellphone Allowance	6,924	-
Social Contributions	28,842	-
	293,701	**-**
MMC - CORPORATE SERVICES: Cllr AM Oliphant (01/07/2011 - 30/06/2012)		
Basic Salary	179,289	-
Car Allowances	73,235	-
Cellphone Allowance	6,924	-
Social Contributions	41,288	-
	300,736	**-**
MMC - TECHNICAL SERVICES: Cllr K Khumalo (01/07/2011 - 30/06/2012)		
Basic Salary	205,143	-
Car Allowances	73,235	-
Cellphone Allowance	6,924	-
Social Contributions	15,434	-
	300,736	**-**

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

14. Remuneration of councillors (continued)

MMC - SOCIAL DEVELOPMENT: Cllr GN Guza (01/07/2011 - 30/06/2012)		
Basic Salary	295,739	-
Car Allowances	119,127	-
Cellphone Allowance	18,840	-
Social Contributions	62,514	-
	496,220	**-**
MMC - EHS & PUBLIC SAFETY: Cllr Ndai (01/07/2011 - 31/10/2011)		
Basic Salary	58,673	-
Car Allowances	24,412	-
Cellphone Allowance	2,364	-
Social Contributions	15,060	-
	100,509	**-**
MMC - EHS & PUBLIC SAFETY: Cllr ME Magashule (01/11/2011 - 30/06/2012)		
Basic Salary	146,469	-
Car Allowances	48,823	-
Cellphone Allowance	4,560	-
Social Contributions	374	-
	200,226	**-**
MMC - LED & TOURISM: Cllr ML Hlapane (01/07/2011 - 30/06/2012)		
Basic Salary	181,780	-
Car Allowances	73,235	-
Cellphone Allowance	6,924	-
Social Contributions	31,371	-
	293,310	**-**
Part Time Councillors **Cllr's: ME Mokoena, ML Pietersen, SJMT Mahlakazela, DP van der Westhuizen, MC Spruit, SH Pittaway, MS Taje, DLS George, KJ Ngozo, D de Hart**		
Basic Salary	1,446,636	-
Car Allowances	476,508	-
Cellphone Allowances	165,512	-
	2,088,656	**-**
Sitting Allowance for Seconded Councillors of Local Municipalities	135,150	-

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

14. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has two full-time bodyguards.

15. Administrative expenditure

Administration and management fees	691,835	1,158,012

16. Depreciation and amortisation

Property, plant and equipment	3,499,835	3,315,765
Intangible assets	134,516	210,992
	3,634,351	**3,526,757**

17. Bad debt written off

Bad debts		
Office of the Premier	45,000	-
DBSA	260,000	-
Provincial COGTA	419,431	-
	724,431	**-**

18. Finance costs

Interest on long term liabilities	3,488,495	3,972,338

19. Contracted services

Various Contractors	15,043,831	13,027,768

These payments are contracts which have been entered into during the current and prior financial year.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

19. Contracted services (continued)

	2012 R	Restated 2011 R
Jazz Festival	4,892,106	4,302,356
IDP Implementation Monitoring	646,229	1,104,272
Municipal systems improvement programme	750,000	750,000
Cleaning Services	457,583	865,892
Performance Management systems	492,296	442,028
Emergency Funding	-	653,197
Renovations - Mafube Fire Station	3,724,345	1,500,575
Security Services - Building	513,314	576,143
Sport Development Programs	781,996	1,012,378
Vredefort Dome	-	503,618
Upgrading of Municipal Resorts	508,921	6,174
Establishment of District Centre	1,250,926	-
Other	1,026,115	1,311,135
	15,043,831	**13,027,768**

20. Grants and subsidies paid

	2012 R	Restated 2011 R
Other subsidies		
Mafube Local Municipality	3,199,209	-
Metsimaholo Municipality	793,494	90,902
Ngwathe Local Municipality	3,793,010	3,308,968
Moqhaka Local Municipality	6,123	-
District Rural Areas	680,744	5,643,701
	8,472,580	**9,043,571**

The Municipality identifies projects which are funded through grants and subsidies in the various local municipalities within the District. Projects are identified through the Integrated Development Plan. The operation and control of items of property, plant and equipment funded through these grants and subsidies vests in the local municipalities.

Notes to the Consolidated Annual Financial Statements

21. General expenses

	2012 R	Restated 2011 R
Accounting fees	78,947	136,714
Advertising	231,772	287,648
Auditors remuneration	1,796,318	1,585,529
Bank charges	77,542	46,048
Cleaning	82,778	39,412
Consulting and professional fees	1,358,112	1,104,573
Consumables	295,038	335,703
Donations	782,081	562,103
Entertainment	945,474	1,329,452
Rental Equipment	3,479,263	3,151,237
Insurance	225,600	185,660
Community development and training	3,170,778	3,214,996
IT expenses	1,183,388	606,328
Fleet	65,295	68,736
Marketing	1,665,123	1,162,656
Magazines, books and periodicals	76,162	36,830
Medical expenses	7,800	1,575
Assistance to Local Municipalities	3,351,288	6,409,169
Fuel and oil	852,977	642,359
Postage and courier	10,206	13,430
Printing and stationery	420,771	454,176
Promotions	4,235,351	4,872,484
Protective clothing	195,987	96,908
Research and development costs	167,564	-
Royalties and license fees	8,138	11,257
Security (Guarding of municipal property)	92,966	70,342
Staff welfare	720,207	762,111
Subscriptions and membership fees	479,743	475,128
Telephone and fax	756,509	609,691
Training	877,191	1,325,367
Travel - local	3,103,910	2,671,936
Tourism development	219,268	673,839
Strategic sessions	-	892,475
Bursaries: External Students	953,645	1,451,085
Rental property	183,231	191,986
Other expenses	7,287,130	7,751,721
	39,437,553	**43,230,664**

Donations
All donations made by the municipality are in terms of the council's donation policy.

Notes to the Consolidated Annual Financial Statements

22. Cash (used in) generated from operations

	2012 R	Restated 2011 R
Surplus	7,368,425	10,744,403
Adjustments for:		
Depreciation and amortisation	3,634,351	3,526,757
Loss on sale of assets	579,097	348,351
Impairment deficit	724,431	-
Movements in retirement benefits	797,000	2,160,000
Movements in provisions	970,000	1,110,000
Other non-cash items	861,367	423,476
Changes in working capital:		
Trade and other receivables	72,839	1,505,827
Trade and other payables	(251,089)	6,258,967
VAT	(1,021,768)	3,564,396
Unspent conditional grants and receipts	(21,154,036)	35,504,007
	(7,419,383)	**65,146,184**

23. Retirement Benefit Information

Councilors and employees belong to two defined benefit retirement funds which are the Free State Municipal Pension Fund and the Councilors Pension Fund governed by the Pension Fund Act of 1956. These Funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed June 2005. The Free State Municipal Pension Fund, net assets that are available for benefits at 30 June 2005 was R 1 530 775 000.

The actuarial valuation determined that the fund was in a sound financial position. The estimated liability of the funds is R1 308 118 000 which is adequately financed.

No new information was available at balance sheet date.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

24. Prior period errors

The following errors occurred, in relation to the prior financial year, which necessitated corrective action in the current year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors:

Fire Truck funded by the Department of Transport:

During the 2010-11 financial year, the municipality received funding from the department of transport to purchase a fire truck amounting to R1 997 638 which was erroneously expensed during the 2010-11 financial year.

The correction was made in the previous year against Accumulated Surplus.

The effect on the financial statements is as follows:

	2012 R	Restated 2011 R
Statement of financial position		
Property, plant and equipment	-	1,914,403
Statement of Financial Performance		
Depreciation expense	-	(83,235)
Expenditure: License & Registration	-	(2,362)
Revenue: Government Grants and Subsidies	-	2,000,000
Cash flow statement		
Cash flow from investing activities		
Purchase of Property, Plant and Equipment	-	(1,997,638)

25. Going concern

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

26. Unauthorised expenditure

	2012 R	Restated 2011 R
Balance at the beginning of the year	-	-
Unauthorised expenditure - current year	272,771	-
Approved/condoned by council	-	-
	272,771	**-**

The municipality incurred unauthorised expenditure during the year under review, that amounted to R272 771. This amount was condoned by council on the 16 August 2012.

27. Fruitless and wasteful expenditure

	2012 R	Restated 2011 R
Opening balance	-	-
Fruitless and wasteful expenditure - current year	5,290	-
Approved/condoned by council	-	-
Transfer to receivables for recovery	-	-
	5,290	**-**

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

27. Fruitless and wasteful expenditure (continued)

The municipality incurred fruitless expenditure during the year under review, that amounted to R5 290. This amount was condoned by council on the 16 August 2012.

28. Irregular expenditure

	2012	2011
Opening balance	46,300	85,428
Add: Irregular Expenditure - current year	4,253,383	3,687,280
Less: Amounts condoned by council	(3,816,894)	(3,726,408)
	482,789	**46,300**

Analysis of expenditure awaiting condonation per age classification

	2012	2011
Current year	482,789	46,300
Prior years	-	-
	482,789	**46,300**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
SCM procedures not followed: Order class-Urgent	None	26,761
SCM procedures not followed: Order class-Sole Supplier	None	14,575
SCM procedures not followed: Order class-Specialised Services	None	117,750
SCM procedures not followed: Order class-Other	None	323,703
		482,789

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Supply Chain Policy procedures not followed.	Municipality Council	46,300

Irregular expenditure of R217 322 (2011:R305 372) were condoned by council on the 16 August 2012. The remaining balance of R251 367 was condoned by council on the 30 August 2012.

29. In-kind donations and assistance

No in-kind donations or assistance were received during the year.

30. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2012	2011
Current year subscription	454,986	453,925
Amount paid - current year	(454,986)	(453,925)
	-	**-**

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

30. Additional disclosure in terms of Municipal Finance Management Act (continued)

Audit fees

Current year fee	1,796,318	1,585,529
Amount paid - current year	(1,796,318)	(1,585,529)
	-	-

PAYE and UIF

Current year payroll deduction	11,638,051	9,053,922
Amount paid - current year	(11,638,051)	(9,053,922)
	-	-

Pension and Medical Aid Deductions

Current year payroll deduction	9,925,513	8,100,703
Amount paid - current year	(9,925,513)	(8,100,703)
	-	-

VAT

VAT receivable	4,224,101	3,202,333

All VAT returns have been submitted by the due date throughout the year.

31. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

32. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus budgeted expenditure.

33. Related parties

Associate of close family member of key management	Pitso Gas Supply of (Mrs F Pitso-LED Manager)

The above related party was identified during the financial year under review.

34. Risk Management

Financial risk management

The District municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

34. Risk Management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The financial liabilities of the District Municipality are backed by appropriate assets and it has adequate liquid resources. The District Municipality monitors the cash projections by ensuring that borrowing facilities are available to meet its cash requirements.

No significant financial risk pertaining to the creditors exists except for mainly operational risks that are not covered in here.

Interest rate risk

The District Municipality is mainly exposed to interest rate risk due to the movements in long-term and short term interest rates.

The risk is managed on an on-going basis.

Credit risk

Credit risk is the risk that a counter party to a financial asset will fail to discharge an obligation and cause the District Municipality to incur financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Foreign exchange risk

The District Municipality does not engage in foreign currency transactions.

35. Events after the reporting date

No events took place after the reporting date which has an impact on the Annual Financial Statements.

36. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the consolidated annual financial statements.

Deviations from supply chain management regulations did occur. These deviations were submitted and noted by council. A detailed deviation register is available at the municipality for inspection.

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

37. Financial assets by category

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows:

2012

	Loans and receivables	Held to maturity investments	Total
Trade and other receivables	293,584	-	293,584
VAT Receivable	4,224,101	-	4,224,101
Cash and Cash Equivalents	-	68,305,534	68,305,534
Short-term Deposits	-	122,519,258	122,519,258
	4,517,685	**190,824,792**	**195,342,477**

2011

	Loans and receivables	Held to maturity investments	Total
Trade and other receivables	1,090,854	-	1,090,854
VAT Receivable	3,202,333	-	3,202,333
Cash and Cash Equivalents	-	90,236,741	90,236,741
Short-term Deposits	-	115,961,629	115,961,629
	4,293,187	**206,198,370**	**210,491,557**

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

38. Financial liabilities by category

In accordance with IAS 39.09 the financial liabilities of the municipality are classified as follows:

2012

	Financial liabilities at amortised cost	Total
Annuity Loans	20,432,122	20,432,122
Retirement benefit obligation	6,440,000	6,440,000
Trade and other payables	19,938,513	19,938,513
Operating lease liability	209,355	209,355
Current portion of Long-term Liabilities	5,287,916	5,287,916
Provisions	5,677,000	5,677,000
Unspent conditional grants and receipts	35,507,082	35,507,082
	93,491,988	**93,491,988**

2011

	Financial liabilities at amortised cost	Total
Annuity Loans	25,717,818	25,717,818
Retirement benefit obligation	5,643,000	5,643,000
Trade and other payables	20,189,602	20,189,602
Operating lease liability	768,338	768,338
Current portion of Long-term Liabilities	4,729,858	4,729,858
Provisions	4,707,000	4,707,000
Unspent conditional grants and receipts	56,661,118	56,661,118
	118,416,734	**118,416,734**

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations

39.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and consolidated annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary consolidated annual financial statements. Where the budget and consolidated annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the consolidated annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and consolidated annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset’s heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 consolidated annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's consolidated annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its consolidated annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2013 consolidated annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's consolidated annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's consolidated annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual consolidated annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:
- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Notes to the Consolidated Annual Financial Statements

39. New standards and interpretations (continued)

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 consolidated annual financial statements.

Notes to the Consolidated Annual Financial Statements

	2012	Restated 2011
	R	R

40. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Microsoft Exchange 2010	56,848	-	56,848	-	-	-
Caseware	173,950	(125,630)	48,320	173,950	(67,647)	106,303
Microsoft Office 2007	163,027	(163,027)	-	163,027	(163,027)	-
E-Venus	468,460	(468,460)	-	468,460	(468,460)	-
Server Software	241,070	(209,181)	31,889	241,071	(132,649)	108,422
Payday System	89,052	(89,052)	-	89,052	(89,052)	-
Total	**1,192,407**	**(1,055,350)**	**137,057**	**1,135,560**	**(920,835)**	**214,725**

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Carrying Value
Caseware	106,303	-	(57,983)	48,320
Microsoft Exchange 2010	-	56,848	-	56,848
Server Software	108,422	-	(76,533)	31,889
	214,725	**56,848**	**(134,516)**	**137,057**

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Carrying Value
Caseware	164,286	(57,983)	106,303
E-Venus	76,476	(76,476)	-
Server Software	184,956	(76,534)	108,422
	425,718	**(210,993)**	**214,725**

Other information

	2012	2011
Fully amortised intangible assets still in use:	720,539	720,539

Fully amortised intangible assets still in use consist of:
- Microsoft Office 2007
- ISA Server 2006
- MS Exchange 2003 Server
- Payday Payroll System
- E-Venus

There were no intangible assets that were assessed as having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no contractual commitments for the acquisition of intangible assets.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

41. Employee benefit obligations

Defined benefit plan

The defined benefit plan, to which employees belong, consists of the Free State Municipal Pension Fund and the Councilors Pension Fund governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position.

Post retirement medical aid plan

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	107	87
Continuation members (e.g: Retirees, widows, orphans)	3	3
Total Members	**110**	**90**

The municipality make monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme
- Hosmed Medical Scheme
- Samwumed Medical Scheme
- KeyHealth Medical Scheme

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(5,643,000)	(3,483,000)
Service Cost	(480,000)	(321,000)
Interest Cost	(541,000)	(339,000)
Actuarial gains or (losses)	127,000	(1,572,000)
Actual benefits paid	97,000	72,000
Net liability	**(6,440,000)**	**(5,643,000)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.20 %	9.25 %
Healthcare cost inflation	7.50 %	7.70 %
Net discount rate	1.58 %	1.44 %

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is determined by reference to market yields on high quality corporate bonds as at the balance sheet date. In countries where there is no deep market in corporate bonds, government bonds are used. It is currently market practice to use government bond yields, as the South African corporate bond market is not considered to be sufficiently developed. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

41. Employee benefit obligations (continued)

The estimated discount rate was set equal to the yield on a zero-coupon government bond with a term of approximately 19 years.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

42. Unspent conditional grants and receipts

See appendix "F2" for a detailed reconciliation of grants from other spheres of government. The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld during the year.

Unspent conditional grants and receipts comprises of:

	2012 R	Restated 2011 R
Unspent conditional grants and receipts		
RWF Feasibility Study Funding	450,000	-
Department of Health - Relebohile Clinic: Ngwathe Local Municipality	4,335,865	13,503,163
Department of Roads, Transport and Police - Internal Roads: Ngwathe Local Municipality	732,391	732,391
EPWP Project - Sidewalks: Metsimaholo Local Municipality	117,428	897,157
Department of Public Works - Church: Ngwathe Local Municipality	85,794	276,926
Department of Sports - Grant: Fezile Dabi Stadium	24,410,077	27,211,831
EPWP - Metsimaholo Hospital	2,278,555	10,000,000
DWAF	656,147	1,228,090
EPWP - Upgrading and construction of the street network within the Ngwathe Municipal Area	540,825	911,560
LOTTO Grant	1,900,000	1,900,000
	35,507,082	**56,661,118**

Movement during the year

	2012 R	Restated 2011 R
Balance at the beginning of the year	56,661,118	21,157,111
Additions during the year	20,534,284	75,702,081
Expenditure recognised during the year	(41,688,320)	(40,198,074)
	35,507,082	**56,661,118**

The nature and extent of government grants recognised in the consolidated annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

Notes to the Consolidated Annual Financial Statements

	2012 R	Restated 2011 R

43. Operating lease

The municipality rents photocopy machines from Journey Vehicle & Assets Finance (Bloemfontein) CC, being the major supplier:

- no contingent rent is payable in terms of the lease agreements.
- there is no renewal or purchase options as per lease agreement terms, and the lease escalates as determined in the various lease agreements with the renter; and
- no restrictions are imposed by lease arrangements, with regards to additional debt and further leasing.

The lease agreements is for a total period of 60 months (5 years).

44. Commitments

Operating leases - as lessee (expense)

	2012 R	Restated 2011 R
Minimum lease payments due		
- within one year	1,289,819	3,987,439
- in second to fifth year inclusive	-	1,289,819
- later than five years	-	-
	1,289,819	**5,277,258**

45. Contingencies

The municipality had the following contingent liabilities as at year-end:

The certainty and timing of the outflow of these liabilities are uncertain. The amount disclosed below are possible outflow;

	2012 R	Restated 2011 R
Maseko Tilana - Civil not finalised Ref (MMW/1/M/5M0728/11)	16,630	-

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX A

SCHEDULE OF EXTERNAL LOANS

FOR THE YEAR ENDED 30 JUNE 2012

	SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012							
EXTERNAL LOANS	Loan Number	Redeemable	Balance at 30 June 2011	Received during the year	Redeemed written off during the year	Balance at 30 June 2012	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with the MFMA
			R	R	R	R	R	R
LONG-TERM LOANS								
Stock Loan @ 10% - Tumahole Parys	10055/1	30 June 2015	2 369 194	-	501,056	1 868 138	-	-
Stock Loan @ 10% - Maokeng	10054/1	30 June 2015	2 336 489	-	185,561	2 150 928	-	-
Stock Loan @ 12% - Maokeng	10054/2	31 December 2016	1 351 466	-	508,069	843 397	-	-
Stock Loan @ 12% - Maokengbrentpark	10057/1	31 December 2015	3 775 557	-	622,468	3 153 089	-	-
Stock Loan @ 12% - Mokwallo Vredefort	10056/1	31 December 2015	3 477 825	-	675,757	2 802 068	-	-
Stock Loan @ 10% - Phiritona Heilbron	10058/1	31 December 2016	9 497 606	-	1,368,185	8 129 421	-	-
Stock Loan @ 10% - Viljoenskroon	10066/1	31 December 2015	435 216	-	80,810	354 406	-	-
Stock Loan @ 10% - Zamdela	10076/1	31 December 2015	242 943	-	52,099	190 844	-	-
Stock Loan @ 10% - Zamdela	10076/2	31 December 2015	426 694	-	91,504	335 190	-	-
Stock Loan @ 15.25% - Sasolburg	10243/3	31 December 2016	1 201 060	-	220,825	980 235	-	-
Stock Loan @ 16.50% - Sasolburg	13304/1	31 December 2018	2 087 386	-	152,392	1 934 994	-	-
Stock Loan @ 16.50% - Sasolburg	13304/2	31 December 2018	1 505 838	-	156,218	1 349 620	-	-
Stock Loan @ 15.25% - Sasolburg Kroonstad	10243/5	31 December 2016	1 740 404	-	112,695	1 627 709	-	-
TOTAL EXTERNAL LOANS			**30 447 677**	**-**	**4 727 639**	**25 720 038**	**-**	**-**

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX B

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2012

	COST				Accumulated Depreciation					
	Opening balance	Additions	Disposals	**Closing balance**	Opening balance	Depreciation	Disposals	**Closing balance**	**Carrying Value**	**Budget Additions 2012**
Land and Buildings										
Land	2 025 000	-	-	**2 025 000**	-	-	-	**-**	**2 025 000**	**-**
Buildings	14 677 111	340 544	-	**15 017 655**	2 564 725	770 371	-	**3 335 096**	**11 682 560**	**-**
Other PPE										
Office equipment	1 515 461	157 277	-	**1 672 738**	1 161 598	165 187	-	**1 326 785**	**345 954**	**-**
Furniture and Fittings	3 799 178	217 786	5 400	**4 011 564**	2 829 956	263 874	-	**3 093 830**	**917 734**	**-**
Computer equipment	5 054 260	270 367	-	**5 324 627**	4 178 568	460 831	-	**4 639 399**	**685 228**	**-**
Plant and Machinery	204 945	-	-	**204 945**	25 535	10 760	-	**36 295**	**168 650**	**-**
Motor Vehicles	7 939 096	1 523 661	702 487	**8 760 270**	1 677 607	1 560 260	128 789	**3 109 078**	**5 651 192**	**-**
Other Assets	2 386 097	101 091	-	**2 487 188**	673 091	351 789	-	**1 024 880**	**1 462 308**	**-**
TOTAL	37 601 148	2 610 726	707 887	**39 503 987**	13 111 080	3 583 071	128 789	**16 565 362**	**22 938 625**	**-**

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX C

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

FOR THE YEAR ENDED 30 JUNE 2012

	COST					Accumulated Depreciation				
	Opening balance	Additions	Additions Under Construction	Disposals	**Closing balance**	Opening balance	Depreciation	Disposals	**Closing balance**	**Carrying Value**
Executive & Council	17 091 427	41 249	-	-	**17 132 676**	3 593 477	750 147	-	**4 343 624**	**12 789 052**
Municipal Manager	930 711	58 954	-	-	**989 665**	533 227	54 616	-	**587 843**	**401 821**
Finance	129 519	14 670	-	-	**144 189**	24 810	43 169	-	**67 979**	**76 210**
Information Technology	1 192 844	592 980	-	-	**1 785 824**	1 032 651	742 825	-	**1 775 476**	**10 348**
PMU	7 251 450	1 590 512	-	-	**8 841 962**	4 981 200	679 511	-	**5 660 711**	**3 181 251**
Corporate Support Services	3 395 221	134 027	-	-	**3 529 248**	1 407 941	40 818	-	**1 448 759**	**2 080 489**
Fire & Emergency Services	4 834 798	-	-	702 486	**4 132 312**	934 450	944 589	128 789	**1 750 249**	**2 382 063**
Disaster Management	257 471	8 772	-	5 400	**260 843**	86 212	97 099	-	**183 311**	**77 531**
LED	316 276	7 058	-	-	**323 334**	259 328	10 563	-	**269 891**	**53 443**
Environmental Health	2 201 434	162 505	-	-	**2 363 939**	341 021	136 498	-	**477 519**	**1 886 420**
TOTAL	**37 601 148**	**2 610 726**	**-**	**707 886**	**39 503 989**	**13 194 316**	**3 499 837**	**128 789**	**16 565 364**	**22 938 625**

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX D

SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2012

2011 REVENUE R	2011 EXPENSES R	2011 Surplus/ (Deficit) R		2012 REVENUE R	2012 EXPENSES R	2012 Surplus/ (Deficit) R
-	25 389 722	(25 389 722)	Executive & Council	-	26 990 973	(26 990 973)
-	12 637 966	(12 637 966)	Corporate Support Services	-	14 010 946	(14 010 946)
-	17 865 494	(17 865 494)	Municipal Manager	-	19 398 560	(19 398 560)
-	17 507 638	(17 507 638)	Finance	-	14 861 289	(14 861 289)
-	2 757 301	(2 757 301)	Information Technology	-	2 786 471	(2 786 471)
-	17 640 592	(17 640 592)	PMU	-	16 330 032	(16 330 032)
-	14 348 080	(14 348 080)	Environmental Health	-	14 964 365	(14 964 365)
-	3 500 018	(3 500 018)	Disaster Management	-	4 568 265	(4 568 265)
-	11 976 414	(11 976 414)	LED	-	10 477 681	(10 477 681)
-	3 706 156	(3 706 156)	Fire & Emergency Services	-	10 647 536	(10 647 536)
138 073 786	-	138 073 786	Income	142 404 543	-	142 404 543
138 073 786	**127 329 383**	**10 744 403**	**Sub Total**	**142 404 543**	**135 036 118**	**7 368 425**

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX E (1)

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

FOR THE YEAR ENDED 30 JUNE 2012

	2012 Actual (R)	2012 Budget (R)	2012 Variance (R)	2012 Variance (%)	Explanation of Significant Variances greater than 10% versus Budget
REVENUE					
Government grants	129 393 000	130,621,000	(1 228 000)	-0.94%	
Other Income	2 544 578	1,423,538	1 121 040	78.75%	Income Generated from the Jazz Festival held
Interest received	10 466 965	10,200,000	266 965	2.62%	
Total Revenue	**142 404 543**	**142,244,538**	**160 005**	**0.11%**	
EXPENDITURE					
Employee related costs	(56 907 301)	(62,683,510)	5 776 209	-9.21%	Not Vacant posts were filled during the full financial year
Remuneration of Councillors	(5 414 800)	(5,761,100)	346 300	-6.01%	
Administration	(691 835)	(751,873)	60 038	-7.99%	
Depreciation and amortisation	(3 634 351)	(3,295,730)	(338 621)	10.27%	High Value assets for the Fires Services were bought during the financial year
Bad debts	(724 431)	-	-	0.00%	
Finance costs	(3 488 495)	(8,200,000)	4 711 505	-57.46%	Repayment of DBSA loans
Repairs and maintenance	(641 844)	(883,280)	241 436	-27.33%	Cost due to accidents damages increased
Contracted services	(15 043 831)	(17,885,689)	2 841 858	-15.89%	Unnecessary expenditure were avoided and were done by officials
Grants and subsidies paid	(8 472 580)	(16,074,073)	7 601 493	-47.29%	Slow Implementation / progress of projects
General expenses	(39 437 553)	(45,242,077)	5 804 524	-12.83%	Unnecessary expenditure were avoided
Loss on disposal of property, plant and equipment	(579 097)	-	(579 097)	0.00%	
Total Expenditure	**(135 036 118)**	**(160,777,332)**	**27 044 742**	**-16.8%**	
NET SURPLUS/(DEFICIT) FOR THE YEAR	**7 368 425**	**(18,532,794)**	**(26 884 737)**	**145.07%**	

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX E (2)

ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT)

FOR THE YEAR ENDED 30 JUNE 2012

	2012 Actual	2012 Under Construction	2012 Total Additions	2012 Budget	2012 Variance	2012 Variance	Explanation of Significant Variances greater than 10% versus Budget
	R	R	R	R	R	%	
Executive & Council	41 000	-	41 000	150 000	(109 000)	-72.67%	Vacant Post not Filled
Municipal Manager	58 954	-	58 954	100 000	(41 046)	-41.05%	Vacant Post not Filled
Finance	14 670	-	14 670	40 000	(25 330)	-63.33%	Vacant Post not Filled
Information Technology	252 684	-	252 684	615 000	(362 316)	-58.91%	New Servers were not procured
PMU	1 931 056	-	1 931 056	2 126 000	(194 944)	-9.17%	Vacant Post not Filled
Corporate Support Services	134 027	-	134 027	200 000	(65 973)	-32.99%	Vacant Post not Filled
Fire & Emergency Services	-	-	-	3 000 000	(3 000 000)	-100.00%	Frankfort Fire Station not Completed
Disaster Management	8 772	-	8 772	100 000	(91 228)	-91.23%	Disaster Management Centre No Completed
LED	7 058	-	7 058	150 000	(142 942)	-95.29%	Vacant Post not Filled
Environmental Health	162 505	-	162 505	250 000	(87 495)	-35.00%	Vacant Post not Filled & Laborotary not Completed
TOTAL	**2 610 726**	**-**	**2 610 726**	**6 731 000**	**(4 120 274)**	**-61.21%**	

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX F1

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

FOR THE YEAR ENDED 30 JUNE 2012

Name of Grants	Name Organ of State or Municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reasons for delay / withholding of funds	Compliance with conditions (Y/N)	Reasons for non-compliance
		September	December	March	June	September	December	March	June	September	December	March	June			
Equitable Share	National Treasury	52,971,000	42,378,000	-	31,783,000	30,934,398	39,365,804	27,139,552	29,692,246	-	-	-	-	-	Y	-
FMG	National Treasury	1,250,000	-	-	-	60,326	112,042	906,096	171,536	-	-	-	-	-	Y	-
MSIG	National Treasury	790,000	-	-	-	351,395	-	176,333	262,272	-	-	-	-	-	Y	-
EPWP	Department of Public Works, Roads and Transport	221,000	-	-	-	-	-	-	-	-	-	-	-	-	Y	-

FEZILE DABI DISTRICT MUNICIPALITY

APPENDIX F2

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003

FOR THE YEAR ENDED 30 JUNE 2012

Grant Description	Opening Balance 30 June 2011	Contributions during the year	Interest on Investments	Other Income	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Closing Balance 30 June 2012
UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS							
	R	**R**	**R**	**R**	**R**	**R**	**R**
Provincial Treasury - Church (Parys)	(276,926)	-	-	-	191,131.57	-	(85,794)
EPWP - Sidewalks (Metsimaholo)	(897,157)	-	-	-	779,729.21	-	(117,428)
RWF Feasibility Study Funding	-	(450,000)	-	-	-	-	(450,000)
Department of Health - Clinic (Relebohile)	(13,503,163)	-	-	-	9,167,298.00	-	(4,335,865)
Department of Roads, Transport and Police - Internal Roads	(732,391)	-	-	-	-	-	(732,391)
Department of Sports - Stadium	(27,211,831)	(10,000,000)	-	-	12,801,754.18	-	(24,410,077)
EPWP Metsimaholo Hospital	(10,000,000)	(7,500,000)	-	-	15,221,445.28	-	(2,278,555)
EPWP - Paved Roads (Mafube)	(911,560)	-	-	-	370,735.12	-	(540,825)
LOTTO-GRANT	(1,900,000)	-	-	-	-	-	(1,900,000)
Total	**(55,433,028)**	**(17,950,000)**	**-**	**-**	**38,532,093**	**-**	**(34,850,935)**
UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS							
Department of Water Affairs (DWA)	(1,228,090)	(2,573,111)	-	-	3,145,053.53	-	(656,147)
Total	**(1,228,090)**	**(2,573,111)**	**-**	**-**	**3,145,054**	**-**	**(656,147)**
TOTAL UNSPENT CONDITIONAL GRANTS	**(56,661,118)**	**(20,523,111)**	**-**	**-**	**41,677,147**	**-**	**(35,507,082)**